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Daniel Weintraub: Lawmakers sit on study praising offshoring jobs

By Daniel Weintraub -- Bee Politics Columnist
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A new analysis commissioned by the Legislature suggests that sending American jobs overseas, far from being a blow to employment, can actually help preserve existing jobs and create new ones.

The paper, prepared by the Public Policy Institute of California, warns lawmakers against trying to stem the practice by prohibiting offshoring in state contracts, noting that such a ban would drive up the cost of services and take money away from other programs in the budget.

I have seen a copy of the report, sent 10 days ago to the Assembly Office of Policy Planning and Research, which requested it in May. But that office has yet to release the document publicly, and a spokeswoman for the researchers who prepared it said the paper is still a

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draft that is being reviewed by the Assembly for possible revisions.

"It's a work that is very close to being completed," said Abby Cook, spokeswoman for the policy institute. "We're waiting for some final feedback."

That feedback is not likely to be warm from the Democrats who control the Legislature. Many of them have jumped on the outsourcing issue, hoping to demonstrate their affinity with working people.

The last thing they want is a study done in their name that claims shipping jobs overseas is not only good for the economy, but for workers as well.

But that, more or less, is the conclusion of the 47-page report, for which authors Jon Haveman and Howard Shatz culled all the recent research on the issue and examined trends in California employment. While conceding that data on the latest trends are still in short supply, Haveman and Shatz wrote that offshoring is probably overrated as an economic phenomenon for good or ill, but that, if anything, it is likely to be a net positive.

"Because of the dynamics of the U.S. economy and offshoring's expected effect on productivity, the overall, longer-run effect of offshoring may be to increase living standards at home," they wrote.

How can offshoring preserve jobs? Consider the case of a company that's increasingly beset by foreign competition and can no longer turn a profit. Its choice might be to close down - taking all its jobs with it - or farm out some of its tasks to overseas workers, thus preserving the remaining positions.

"By sacrificing a small proportion of the jobs offered by the company, the other jobs remain," the paper said.

That's not all. The researchers also suggest that offshoring can even create new American jobs.

Companies looking to invest money in expansion base their decision on the projected rate of return. If, by offshoring some jobs those companies can earn a higher return, they are more likely to go ahead with the investment, which then will create more jobs at home.

That's not just economic theory. The numbers in the real world support this view. Between 1991 and 2001, wrote Haveman and Shatz, U.S. firms that expanded their employment abroad also increased their domestic employment by 5.5 million workers. Their share of overall U.S. employment also increased during this period.

But even some people who concede that offshoring might be good for the overall economy in the long run have qualms about the state's allowing its contractors to send jobs elsewhere. California, for instance, uses an Indian firm



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to help answer questions about its social service programs, with callers who speak English having their inquiries routed to India and those who speak Spanish having their questions answered from Tijuana.

Legislation pending in the Assembly would prohibit such contracts.

The new study, after examining policies in other states, suggests that a ban might be misplaced. In Indiana, for example, a contract to upgrade the state's computers for processing unemployment claims was switched from an overseas firm to a domestic one, at an added cost of about \$8 million. But the change was estimated to save only 50 jobs, meaning the cost of each job saved was \$170,000. New Jersey, meanwhile, created 12 jobs by avoiding offshoring of a call center, but at a cost of \$1.2 million, or \$100,000 per job.

Even if these examples are extreme, it's clear that in virtually every case, prohibiting offshoring in state contracts would add to the cost. That cost is hidden, buried in dozens of agreements signed by various state agencies and departments. The consequence, however, is that money spent this way is no longer available for other programs. And that's a trade-off that lawmakers who support the ban don't want to acknowledge.

"Part of the policy calculation should consider whether, in an era of tight budgets, workers at risk of being displaced by offshoring have a more important claim on state resources than other state residents," the report said.

The bottom line, though the researchers don't put it this bluntly, is that politicians, either from ignorance or malevolence, are trying to scare Californians into believing that offshoring is bad for the economy, and bad for them. The reality is that the opposite is true, and that the proposals seeking to freeze the economy in place will do far more harm than good.

About the Writer

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